

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

April 27, 2021
11:35 a.m.

MEMBERS PRESENT

Representative Ivy Spohnholz, Chair
Representative Adam Wool, Vice Chair
Representative Andy Josephson
Representative Calvin Schrage
Representative Andi Story
Representative Mike Prax
Representative David Eastman

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

OVERVIEW: THE NEED FOR A FISCAL PLAN & THE COST OF INACTION BY
BUSINESS & COMMUNITY MEMBERS

- HEARD

PRESENTATION: STATE BUDGET DECISIONS & IMPACT TO LOCAL
GOVERNMENTS

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

BILL POPP

Anchorage Economic Development Corporation
Anchorage, Alaska

POSITION STATEMENT: Testified on the need for a fiscal plan and
the cost of inaction.

MICHAEL MARTIN, President
Alaska Bankers Association
CEO, Northrim Bank Alaska
Anchorage, Alaska

POSITION STATEMENT: Testified on the need for a fiscal plan and the cost of inaction.

CRAIG DAHL, Executive Director
Greater Juneau Chamber of Commerce
Juneau, Alaska

POSITION STATEMENT: Testified on the need for a fiscal plan and the cost of inaction.

QUINN TOWNSEND
Alaska Quality Forum
Anchorage, Alaska

POSITION STATEMENT: Testified on the need for a fiscal plan and the cost of inaction.

WILL WEBB
Alaska Professional Design Council
Anchorage, Alaska

POSITION STATEMENT: Co-provided a PowerPoint presentation, titled "The Need for a Sustainable Operating & Capital Budget," dated 4/27/21.

DAVID GAMEZ
Alaska Professional Design Council
Anchorage, Alaska

POSITION STATEMENT: Co-provided a PowerPoint presentation, titled "The Need for a Sustainable Operating & Capital Budget," dated 4/27/21.

NILS ANDREASSEN
Alaska Municipal League
Juneau, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation, titled "Impacts of State Decisions on Local Governments," dated 4/27/21.

ACTION NARRATIVE

[11:35:22 AM](#)

CHAIR IVY SPOHNHOLZ called the House Special Committee on Ways and Means meeting to order at 11:35 a.m. Representatives Schrage, Story, and Spohnholz were present at the call to order. Representatives Eastman, Prax, Wool, and Josephson arrived as the meeting was in progress.

**OVERVIEW: The Need for a Fiscal Plan & the Cost of Inaction by
Business & Community Members**

[11:36:56 AM](#)

CHAIR SPOHNHOLZ announced that the first order of business would be an overview by business and community members on the need for a fiscal plan and the cost of inaction.

[11:37:04 AM](#)

BILL POPP, Anchorage Economic Development Corporation, (AEDC), read the following position paper on behalf of AEDC's Board of Directors [original punctuation provided]:

The Anchorage Economic Development Corporation is a leader in economic development for Southcentral Alaska. With more than 220 member companies, AEDC represents top businesses in every industry in the state, as well as some of Alaska's largest employers since 1987. Since 2015, AEDC has advocated for a balanced approach to addressing the fiscal policy crisis that has limited our state's ability to grow its economy and communities. We have encouraged responsible spending, new broad-based sources of revenue, and sustainable management of the permanent fund, and despite six years of recession, the state has yet to develop a comprehensive, long-term strategy to address Alaska's ongoing fiscal uncertainty and has nearly depleted Alaska's Constitutional Budget and Earnings Reserves.

The COVID-19 pandemic has further threatened the economic well-being of our communities and businesses. Following a recent months-long effort by the AEDC board and membership to evaluate additional options to resolve the crisis facing our state, the AEDC Board of Directors today recommends the following strategies as key components of a solution for the state's ongoing fiscal policy crisis: limited targeted budget cuts while maintaining and improving the central programs and services; a statewide sales tax that protects municipal sales tax collections and contributes new revenues to the state treasury; and adopting a constitutional amendment incorporating a percent of market value (POMV) strategy into the state

constitution to protect the permanent fund for current and future generations.

The AEDC Board of Directors believes there needs to be a sense of urgency in addressing Alaska's ongoing fiscal crisis. We can no longer kick the can down the road, and we cannot view federal pandemic relief funding as a solution to the state budget deficit. AEDC recognizes that a comprehensive solution will require several elements, including identification of stable revenue sources, disciplined budgeting, and measured spending.

The 2021 AEDC Business Confidence Survey (BCI) represents the views of 210 Anchorage businesses. The survey identifies common themes in alignment with views held by the AEDC Board of Directors. When asked what issues were most important to the Anchorage economy, 79 percent of the businesses surveyed ranked "sustainability of state of Alaska operating budget" as most important. Other key takeaways from the report are as follows: 73 percent of respondents support reductions to state spending; 70 percent of respondents support a statewide sales tax; 74 percent of respondents support a reduction of the permanent fund dividend payout.

11:40:47 AM

While supportive of measured and targeted budget cuts, the AEDC board also recognizes the need to deliver critical state and local services. We cannot cut our way out of the state's fiscal crisis. Affordable healthcare, housing, community safety, and workforce development are key elements to a sustainable, vibrant economy. Investments in quality education from pre-K to the University of Alaska not only prepare and train our future workforce, they're also essential to attracting vital business investment and fostering thriving communities. State support of healthcare services improves our wellbeing, while funding our social welfare programs addresses challenges faced by our most vulnerable citizens.

Current state spending is already insufficient to support many of these essential services, and future cuts should be done with great care and moderation.

If we are to take steps towards fiscal stability, we must consider new and sustainable sources of revenue. A statewide sales tax is the best option and should be designed in a less regressive manner with exemptions on essential items and services, such as nonprepared foods, housing, and medical care, at priority given to local communities to levy a sales tax. The addition of a statewide sales tax would provide a level of predictability to the state budgeting process, and Alaska would remain well below national state tax burden averages.

A comprehensive fiscal strategy for Alaska must include consideration of the permanent fund, which is a critical component of the state's overall fiscal health. Alaska's transition from a state reliant on oil revenues to a state reliant on the permanent fund for more than 70 percent of unrestricted state revenues. While the current POMV opted by the legislature in 2018 promotes long-term sustainability of the permanent fund, future changes in leadership threaten the long-term fiscal discipline necessary to provide lasting protection of the fund for all future generations of Alaskans.

The AEDC Board of Directors supports placing before the voters an amendment creating a constitutionally protected POMV to ensure protection of the fund in perpetuity and encourages the legislature to act in time to get the issue on the 2022 ballot. In closing, our state has suffered through fiscal instability long enough. The AEDC Board supports a comprehensive strategy to end this fiscal crisis and asks for action to be taken now. Alaskans deserve economic stability, investment in our state and local economies, and continuity of disciplined spending to put Alaska on the path to sustained growth and prosperity. AEDC stands ready to collaborate with the legislature and be an active participant in this process. We welcome the opportunity to support these recommendations with our organization's perspective, expertise, and leadership.

MR. POPP stated that AEDC's position on policy speaks volumes in terms of the board's desire for specificity in deeds and actions by the legislature and the administration to bring forward

solutions to the current instability in the state's economy in addition to the instability created by COVID-19.

11:45:05 AM

REPRESENTATIVE PRAX asked whether AEDC had modeled its specific tax proposal.

MR. POPP answered no. He said AEDC looked at the potential of a sales tax in terms of the gross values it could generate based on certain percentages. He believed a sales tax was a needed part of the solution. The regressive nature of sales tax was a concern of the members of the working group and the Board of Directors, he said. He added that as AEDC developed this policy position, they recognized that "the devil is in the details," and that there would need to be a collaborative effort to make sure exemptions were aligned with municipal exemptions. He acknowledged that it's a complex issue; nonetheless, he believed it's a solvable problem and a key component towards an overall solution to the statewide fiscal crisis.

11:46:46 AM

REPRESENTATIVE PRAX asked whether AEDC had considered how productivity could be increased in the private sector. He believed that the gross state product needed to increase to replace the declining oil revenue. Further, he asked whether AEDC had looked at ways to make Alaska more attractive to investors.

MR. POPP confirmed that the subject had been a topic of discussion for years. He explained that Alaska was a noncompetitive state, meaning that Alaska did not compete on a national scale for investment. He pointed out that in Alaska, the high cost of doing business was mostly due to the geography and the environment in addition to the lack of reinvestment in the state. He indicated that Alaska was not focused on attracting a new workforce, which was necessary for a vital and growing economy; further, the issues pertaining to quality of life were challenging. He cited examples in Anchorage, such as housing, community setting, walkability, public transportation, a vital downtown, and a vibrant university district, all of which could be improved upon to attract a critically needed workforce and the investment that chases that workforce. He reported that a recent corporate survey of decision makers who make decisions within hundreds of companies throughout the U.S. on where to invest, found that "availability of skilled

workforce" was the number one concern; "quality of life issues" was the fourth highest concern, as workforce was gravitating to communities that offered a high quality of life. He noted that Alaska had been experiencing a net outflow of people in the past several years. Last year, Anchorage alone lost 3,500 citizens in the last reporting. He opined that the state appeared to be "asleep at the wheel" in terms of a willingness to solve its fiscal problems and become more competitive to attract a workforce with which investment would follow.

11:50:46 AM

REPRESENTATIVE SCHRAGE recounted hearing in conversation that if a tax were instituted, people and businesses would bear that burden and leave the state; further, that generating more revenue would solve Alaska's fiscal problems. He asked Mr. Popp to address those perceptions from his perspective.

MR. POPP explained that any good business needs revenue to reinvest in the business. He said "the magic money tree" theory of government and business does not work anymore, as Alaska does not have an unending well of funds from the oil industry or the federal government. He noted that the pandemic relief funding was "one-off dollars," adding that long-term plans are not built on that. He said AEDC's board recognizes that communities need to be invested in to position the state for greater growth in the future. He believed that a measured tax that's managed appropriately would not be burdensome to the community to the point where people would leave. He pointed out that Alaska has the lowest tax burden in the country. He acknowledged that the state's tax burden is offset by the higher cost of living; nonetheless, growing and expanding Alaska's base of population and the economies of scale associated with that growth would put Alaska on the track towards longer-term prosperity.

11:53:43 AM

CHAIR SPOHNHOLZ questioned why AEDC advocated for a sales tax instead of an income tax given that sales taxes are historically considered in the jurisdiction of local communities.

MR. POPP relayed that when the board and the working group considered various options, sales tax seemed to be the most balanced and fair method on a statewide basis, as it would capture revenue from nonresidents. He believed it would be appropriate to add additional revenues that provided the benefit of a tax cut to Alaskan citizens, which a sales tax would

accomplish. He noted that a payroll tax would achieve the same objective; however, AEDC's survey work had indicated that a payroll tax was one of the least desirable options amongst its membership. Alternatively, he explained that a sales tax had significant support and could be crafted in various ways to mitigate the regressive nature, as well as to give first priority to municipalities for collection. Additionally, he believed it was the most likely option to pass [the legislature].

[11:56:12 AM](#)

REPRESENTATIVE EASTMAN asked whether AEDC had assessed the impact of adopting a sales tax.

MR. POPP said because the tax would be collected from online purchases, it would provide an equal taxation model for both in-state and out-of-state businesses. He pointed out that nationwide, there are numerous successful cities that have benefited from implementing significant sales and consumption taxes while continuing to see the volume of businesses grow on an annual basis. For those reasons, he believed that a statewide sales tax would be the best option and the least onerous.

REPRESENTATIVE EASTMAN questioned whether the economic activity in the private sector would remain unchanged after implementing a sales tax.

MR. POPP confirmed, especially if the sales tax applied to out-of-state purchases.

[11:58:09 AM](#)

REPRESENTATIVE EASTMAN remarked:

If you have economic activity occurring in the private sector currently, and then you can withdraw the resources that provide for that economic activity and shift that to the public sector and then you can have increased economic activity in the public sector, it kind of seems like you're double counting the resources that are being used to shift the resources to the public sector. I'm just wondering if that makes sense.

MR. POPP said that did not make sense from AEDC's point of view. He contended that instead of "double accounting," AEDC recognizes that the revenue would be reinvested in the state to provide a better quality of life to make Alaska more competitive in workforce development, education, and to provide key factors that investors are looking for. Additionally, a sales tax that would collect several hundred million dollars at best was fractional within the overall impact on the broader economy. He emphasized that it would not diminish the overall economy and argued that if it were reinvested correctly, the economy would grow.

REPRESENTATIVE EASTMAN asked whether a [negative] impact would be felt at a certain level of sales tax.

MR. POPP said AEDC had not modeled a threshold for decline. He speculated that to have a detrimental effect on the broader economy, a sales tax would have to be collecting in the billions of dollars.

[12:01:39 PM](#)

REPRESENTATIVE WOOL recalled that Mr. Popp had stated that nonresidents would contribute substantially to the sales tax. He asked how that compares to a payroll or income tax on the out-of-state workers who work on the North Slope and take their wages out of state.

MR. POPP stated that AEDC had not completed an apples-to-apples comparison between a sales tax and an income tax in terms of total revenue and how the out-of-state factor would compare. He explained that part nonresidential factors are fungible in nature, as a sales tax on the tourism industry today would collect next to nothing; however, several years ago, the revenue collected would have been fairly substantial. He confirmed that an income tax would collect significantly more, but the AEDC board believed that an income tax would be "implausible" politically. He reiterated his belief that a sales tax would be a reasoned first step towards a broader solution that would ideally include the POMV proposal, as well as a careful look at future cuts to state spending.

CHAIR SPOHNHOLZ noted that over 20 percent of Alaska's workers were nonresidents.

[12:04:53 PM](#)

MICHAEL MARTIN, President, Alaska Bankers Association; CEO, Northrim Bank Alaska, read the following prepared remarks [original punctuation provided]:

The Alaska Bankers Association represents the several banks that have operations in Alaska. Our banks safeguard over 14 billion dollars in combined deposits, employ more than 2,200 essential workers across the 121 branches statewide, and make over 85 percent of the nonpublic commercial loans in Alaska. Alaska bankers are job creators, and we fuel the Alaska economy by providing credit, businesses, and families (indisc.) need to grow. Our member banks stepped up during the pandemic by lending over \$1.4 billion through the first round of the Paycheck Protection Program (PPP) and currently, during the second round of PPP, we have made approximately 10,000 loans for an additional \$700 million dollars.

Alaska banks are committed to continue supporting communities, businesses, and individuals to help build a prosperous future for Alaska. The Alaska Bankers Association and all seven member banks have long advocated for a stable, sustainable budget. We have outlined the actions the state needs to take as the following: continued but measured fiscal reforms over time; predictable tax laws; utilization of Alaska Permanent Fund earnings based on a rules-based framework; a meaningful capital budget; and not overdrawing the Earnings Reserve Account to preserve these assets for future years. Together, these actions will support a responsible, balanced, stable, and sustainable state budget.

Alaska banks make financial commitments for 10, 20, and 30 years, and look to the Alaska economy well beyond the next election cycle. We urge you to do the same. One other point is that the way the state spends revenue has important impacts and not all spending has the same effect on the economy. State funds spent on dividends through the operating budget and capital budget are not all the same. I submit to you that spending through the capital budget addresses badly needed deferred maintenance for our state's assets, creates jobs, and ultimately stimulates the economy. Thank you for the opportunity to express the

Alaska Bankers Association's views today and thank you all for your service to the state of Alaska.

12:08:12 PM

CRAIG DAHL, Executive Director, Greater Juneau Chamber of Commerce, noted that the Greater Juneau Chamber of Commerce represents over 300 businesses and organizations and does its best to watch over the economic health of the community. He stressed the importance of a sound fiscal plan that's consistent and reliable to encourage outside investment and future development. He emphasized the importance of a fair and consistent distribution of funds for capital projects, specifically infrastructure projects that create jobs, as well as consistent and reliable funding mechanisms, such as the school bond debt reimbursement, which provides support to the local municipality. Further, he believed there should be an overriding concern for the entire state, rather than services and jobs being taken away from one community and given to another without regard to the importance of those services to the local economy.

MR. DAHL indicated that Juneau is heavily reliant on state government as the foundation of its local economy. He said that as more state jobs are moved out of Juneau, the impact of these losses becomes more severe and evident. For perspective, between 2003 and 2019, Juneau lost nearly 1,000 government jobs, he reported. Nonetheless, the Hecla Greens Creek silver mine, the Coeur Kensington gold mine, and a growing cruise industry provided the desired diversification. He recalled that Alaska's capital city was feeling positive about its future when it got hit with two-plus years of severe budget cuts from the state that brought along increased pressure to use the permanent fund to help stabilize the government. Furthermore, the pandemic hit when the community was still reeling from the severe budget cuts. With that, Juneau lost the entire 2020 and 2021 cruise seasons. This was devastating to the local business community and heavily impacted the City and Borough of Juneau's revenue, he said.

MR. DAHL continued by sharing his belief that it is essential for outside investment to have the confidence in a stable, fiscal policy in the state of Alaska if they are going to put their capital at risk. The development of the state's natural resources, he said, as well as the appropriate use of state and federal funding for infrastructure projects, would create jobs and help stabilize and grow the economy. He concluded by noting

that the chamber encourages responsible use of the permanent fund as a means to stabilize state spending. He commended the legislature for its work on these challenging issues, reiterating that it was "absolutely essential" for the state to develop and adhere to a sound fiscal plan that would encourage private investment to return to Alaska.

12:13:30 PM

QUINN TOWNSEND, Alaska Quality Forum, stated that even before the business closures, tanked oil prices, and high unemployment in response to the pandemic, Alaska had a spending problem. Now that the state is beginning to see the effects of the stalled economic activity, she said, Alaska's looming fiscal crisis is even larger. She conveyed that a functional constitutional cap was one tool to avoid the temptation of overspending, which would hinder not help the state's economy. She reported that Alaska spent over 20 percent of its gross domestic product (GDP) and personal income on state government, which is nearly double the average of the highest economically performing states in the country. In contrast, the highest performing state governments spend about 11 percent of the GDP and personal income. She relayed that the highest performing states - those that spend less and have lower taxes - experience better unemployment growth, larger net in-migration, higher population growth, higher income growth, and higher GDP. Alternatively, states with ineffective limits, such as Alaska, fair no better economically than states with no spending limit. She highlighted the characteristics of successful constitutional spending caps. She opined that Alaska would see much economic growth by implementing a meaningful sending cap. She believed that a revised constitutional spending limit would be a first step towards responsible budgeting and would encourage a thriving economy to take Alaska into the future.

12:17:00 PM

WILL WEBB, Alaska Professional Design Council, informed the committee that the Alaska Professional Design Council (APDC) is a cooperative effort to advance the common interests of Alaska's design professionals. He noted that APDC represents approximately 5,000 people through its nine member organizations, including architects, engineers, land surveyor, landscape architects, and interior designers.

12:17:49 PM

DAVID GAMEZ, Alaska Professional Design Council, provided a PowerPoint presentation, titled "The Need for a Sustainable Operating & Capital Budget." He noted that he was a licensed professional engineer and the past president of the Alaska section of the American Society of Civil Engineers (ASCE). He explained that civil engineers made it possible to have clean drinking water and functioning roads, airports, dams, railroads, and ports. Additionally, they were responsible for ensuring that schools and hospitals were safe and structurally sound during catastrophic events, such as earthquakes. One of ASCE's critical missions, he said, was to advocate for the state's infrastructure needs, as failing infrastructure impacted the economy as well as the safety of all Alaskans. Turning to slide 2, he reported that in 2017, ASCE released the first report card on Alaska's infrastructure, which was a comprehensive evaluation of 9 infrastructure categories based on 8 key criteria. He recalled that over 40 volunteers came up with a cumulative grade of C- for the state's infrastructure. A common theme throughout the report is that Alaska's infrastructure was aging and needed repair. Further, lack of funding for capital improvements and deferred maintenance projects were the number one barrier to improving the infrastructure. He encouraged the committee members to read the entire report card at www.infrastructurereportcard.org/Alaska.

12:20:15 PM

MR. GAMEZ continued to slide 4, which read as follows [original punctuation provided]:

How Can We Raise the Grades?

- Make state and federal funding for improvements a priority
- Better coordinate among state, federal, and Alaska Native programs
- Perform system evaluations to identify and assess risks and incorporate into planning efforts
- Develop and implement innovated technology and operations
- Focus on durable and sustainable system designs to reduce lifecycle and O&M costs
- Bridge the gap in O&M funding to allow communities to maintain existing infrastructure

12:21:14 PM

MR. WEBB discussed the capital budget on slide 5. The graph featured Alaska's capital budget over the past 20 years. He noted that APDC recommends a \$2.1 billion capital budget. He recalled that for much of the past two decades, Alaska had budgeted well above the recommended amount, which helped tackle that backlog of needs. However, despite past spending, roofs continue to degrade over time, roads continue to wear out, and steel continues to corrode. He emphasized that that sustainable, predictable funding mechanisms would allow for long-term items to be systematically dealt with, so that everyone could continue to benefit from the state's public facilities without interruption and with fewer costlier emergency repairs. In addition to infrastructure, the state's budget also affects the design communities, he said. He explained that uncertain budgets were a hardship for everyone, which is why APDC supports revenue options that would provide a reasonably predictable level of support year after year for the state. He noted that APDC relies on the state to adopt building codes, review building plans, and regulate the profession. He added that such activities had either slowed or experienced difficulties as budgets have changed over the past several years. For example, in 2021, the state still operates with 2012 building codes, which is not ideal for public safety and makes APDC's work more difficult. Furthermore, he said that predictable, consistent state funding is vital for business. He indicated that layoffs were bad for the public because it can result in the loss of technical knowledge; further, it takes a toll on the university when students must go elsewhere for employment opportunities. He stated that the "boom and bust" dynamic is especially hard on smaller companies that don't have the excess capacity to capitalize on good times and lack the flexibility to handle the bad times. He concluded that a reasonable revenue and spending plan that could be maintained year over year would provide a solid base for everyone who supports public facilities. It would help maintain knowledge and expertise, and help the university attract students who see Alaska as a viable, long-term home. Additionally, it would help ensure that existing infrastructure was reliable and useful for industry, commerce, and the public (slide 6).

PRESENTATION: State Budget Decisions & Impact to Local Governments

[12:25:26 PM](#)

CHAIR SPOHNHOLZ announced that the final order of business would be a presentation by Nils Andreassen, Alaska Municipal League (AML).

12:25:51 PM

NILS ANDREASSEN, AML, introduced a PowerPoint presentation, titled "Impacts of State Decisions on Local Governments." He directed attention to slide 2, highlighting that local governments are political subdivisions of the state. He reported that in terms of state funding, the combined total revenue from local governments is between investment revenue at 20.8 percent and petroleum revenue at 19.7 percent. He explained that revenue from local governments funds the factors discussed by Mr. Popp, such as quality of life and infrastructure, which helps attract and retain Alaskan residents, families, and workers. He advanced to slide 3, which featured three data sets from a recent poll of AML members: financial status, federal relief, and choices for the next fiscal year. With regard to financial status, he explained that each local government would be faced with different choices for the next fiscal year. Most, he said, will need to think conservatively about spending; maintain adequate levels of service; keep flat spending; and defer capital infrastructure improvements. He added that many local governments are drawing from savings. He addressed the second data set, federal relief, explaining that it will provide the ability to make up for lost revenue replacement and allow struggling local governments to provide some level of economic support to businesses and residents. He expressed his hope that for some, federal relief would also result in reinvestments into infrastructure.

12:29:22 PM

MR. ANDREASSEN discussed local government revenues on slide 4, noting that the majority of such revenues comes from property tax, despite it being the least prevalent form of tax among local governments. He pointed out that there are a number of different types of taxes available to local governments; however, a net income tax and the taxation of resource rights are examples of taxes that are reserved for the state alone. He advanced to slide 5, which addressed local government expenditures. He stated that local governments are making reinvestments into the community that residents, families, and businesses depend on. Local government expenditures are focused on public education, public infrastructure and public safety, in addition to quality of life. He noted that local government

expenditures have decreased since the onslaught of the statewide fiscal crisis; therefore, residents are experiencing a statewide reduction in the provision of services on top of a local reduction in services, resulting in a compounded level of harm.

[12:32:01 PM](#)

MR. ANREASSEN touched on unfunded mandates on slide 6. He informed the committee that most of the state's unfunded mandates fall on school districts but also apply to local governments. He emphasized that requirements of the state only increase costs at the local level. He believed that conducting a thorough review of the unfunded mandates would increase government efficiency at all levels. He reviewed FY 20 and FY 21 vetoes on slide 7 and highlighted the drastic uncertainty they caused. He pointed out that many of the proposed vetoes fell heavily on local government that had already passed budgets, which made it difficult to respond and plan ahead.

[12:34:49 PM](#)

MR. ANREASSEN continued to slide 8, explaining that the overall implications from state budget decisions leave local governments facing various scenarios in terms of how to respond. Firstly, they could consider increasing or adding new taxes. Secondly, they could cut costs at the local level by reducing staff, reducing capital investments and maintenance, and reducing the provision of services. He discussed state programs and specific budget decisions that impact local governments on slide 9, which read as follows [original punctuation provided]:

Leveraging Partnerships

1970 -State Revenue Sharing -Reimburse for Services
(Police, Roads, Fire, etc)
1985 -Community Revenue Sharing \$140M, or \$300M if
adjusted for inflation
1997 -Safe Communities, focus on public health and
safety
2003 -Community Assistance zeroed out
2009 -\$180M fund with \$60M distribution
2016 -\$90M fund with \$30M distribution
2020 -Vetoed recapitalization results in distribution
\$20m, or base

[12:39:10 PM](#)

MR. ANREASSEN progressed to slide 10, which outlined "building trust." He believed that trust between local governments, political subdivisions, and the state has been eroded by broken commitments on the state's behalf. He highlighted school bond debt reimbursement and port and harbor reimbursements as examples of commitments that have been viewed as optional. He shared his understanding that local governments are less likely to trust the state going forward, which results in the loss of a partnership. He discussed planning for growth on slide 11, noting that most programs implemented at the local level are not adjusted for inflation, which has resulted in decreases over time. He argued that all programs should keep pace with inflation; further, that growth should be consistent. However, in reality, growth has not been planned for, he said.

[12:42:05 PM](#)

MR. ANREASSEN continued to slide 12, "Measuring what Matters," which featured four different graphs, all indicating that investments into Alaska Marine Highway System (AMHS), community assistance, regional jails, and base student allocation (BSA) had not kept pace with inflation. He summarized the contents of slide 13, which provided a list of questions to consider regarding a spending cap as well as the floor. He encouraged the committee to think about state expenditure requirements and how those fit into the objectives of state economic policy. He pointed out that there has been multiple instances over the past several years that highlighted whether the state could carry out its constitutional and statutory obligations. He advised reconsidering the base line budget if the current one isn't adequate. Mr. Andreassen turned to slide 14 and addressed the infrastructure deficit. He indicated that there is \$21.9 billion in infrastructure needs and questioned how to plan for that in terms of time and resourcing. He expressed his concern that Alaska's capital infrastructure needs lack consistent funding. Further, he pointed out that there is no central clearing house for assessing infrastructure needs, as many of them are siloed across and outside state government.

[12:46:20 PM](#)

MR. ANREASSEN turned to slide 15, which exemplified one piece of that infrastructure deficit: school construction and major maintenance. He explained that funding for such projects has been inadequate, noting that on average, the legislature funds about 8 percent of all submitted projects. Furthermore, he explained that school districts are required by the state to

submit those projects and have a capital improvement plan, which costs money to develop in a way that DEED can track effectively. He touched on improving the state's credit rating on slide 16, which read as follows:

Improving Our Credit Rating

Local governments carry \$2.2B in GO bond debt, and \$1B in revenue bonds

Not a lot of alternative structures in Alaska for bonding, or pooling bonds

- Anchorage, Fairbanks, and Juneau higher than the State's, but most others rely on bond bank

Alaska Municipal Bond Bank critical for

State's bond rating is directly relevant to the bond bank's rating

Downgraded over the last few years, as the State's has diminished

Leads to costs higher than they would be otherwise
Affecting refinancing current obligation -spread right now is "narrow" .3-.4% vs 1.5-2%

Delaying new bond debt because of cost, even with low rates generally

For illustration -\$350 million bond is "just" the amount needed to fully fund 100% of school construction and major maintenance grants this year.

MR. ANDREASSEN emphasized that implementing a fiscal plan would help improve both state and local government's ability to address infrastructure.

[12:49:39 PM](#)

MR. ANREASSEN presented a case for revenue on slide 17. He stressed that local governments depend on a partnership with the state but are losing the trust necessary to fully implement that partnership. He shared his belief that state funding is inadequate to meet its obligations and the needs of residents and businesses. He opined that so many of Alaska's priorities have been underfunded, which makes it impossible to reinvest in

economic recovery and growth. Further, the huge infrastructure deficit is hindering that same growth, he argued. He added that any further delay in addressing the revenue issue would make it increasingly challenging to support any of the aforementioned factors. He continued to slide 18, which illustrated the tax to GDP metric. He confirmed that Alaska is last in terms of state taxation relative to other states; alternatively, Alaska is "middle of the road" regarding the local tax to GDP, which varies from .3 percent to 10 percent. He noted that a statewide tax would disproportionately affect some regions of the state with a high tax to GDP ratio. He added that national data supports a "tipping point," indicating that ineffective taxing of GDP results in falling behind. Alternatively, effectively taxing GDP leads to greater growth, which is why high-growth countries have high levels of taxation and make reinvestments into public health, education, welfare, and safety. He concluded that reinvestment has a compounding effect that would help to grow Alaska's economy.

[12:53:20 PM](#)

MR. ANREASSEN discussed how to grow Alaska's GDP on slide 19. He reiterated that state investment into current programs would "pay dividends" and help to address the state's seed corn. He further noted that Alaska's GDP has grown significantly over the years. He advanced to slide 20, which highlighted eight different objectives that would propel the state to firm fiscal footing: fulfill constitutional debt and statutory obligations; implement a broad-based tax and other revenue measures; ensure sustainable draw from the permanent fund; make appropriate changes to the dividend formula; address the infrastructure deficit; leverage partnerships to achieve goals; provide targeted economic relief; and adopt a reasonable spending cap. He believed that a combination of interests would help the state move forward.

[1:00:22 PM](#)

MR. ANREASSEN concluded on slide 22, emphasizing that Alaska's mayors are committed to working towards recovery now and into the future. The position from the Alaska Conference of Mayors advocated for addressing the state's revenue shortfalls; maximizing federal relief; continuing to meet public health needs; returning to active economic activity; collaboration between levels of government to address the infrastructure deficit; and addressing lessons learned from the pandemic.

1:02:07 PM

REPRESENTATIVE EASTMAN asked how much money is currently on hand in the AML investment pool.

MR. ANREASSEN said that the AML investment pool (AMLIP) is governed by local governments. He explained that it's a tool set up by the legislature to allow pooling of assets. He reported that the current amount is just under \$500 million, which represents operating dollars that can earn some level of return at a time when local governments need it the most. He noted that not all governments participate in that pool, adding that it's similar to a "GFONSI" account at the state level.

CHAIR SPOHNHOLZ asked for the definition of "GFONSI."

MR. ANREASSEN did not know what the acronym stood for; however, he said it's "the state's operating account for multiple accounts."

1:03:35 PM

REPRESENTATIVE EASTMAN asked how AMLIP accumulates money.

MR. ANREASSEN explained that instead of putting money into a savings account, funds could go into AMLIP and potentially earn a greater rate of return. He indicated that the money could accumulate in a variety of ways, such as allocated accounts based on grants for funding that is disbursed to different programs. Essentially, he said it is a bank account used to move money in and out quickly and effectively while hoping for some level of return.

1:04:37 PM

REPRESENTATIVE EASTMAN asked how many Alaskan communities have a local version of the Alaska Permanent Fund.

MR. ANREASSEN was unsure. He surmised that local governments are doing a similar due diligence in the stewardship of their funds as the state does through its permanent fund and other investment vehicles. How local governments manage those funds and the investments they make are with the same goals and in the public interest, he said.

CHAIR SPOHNHOLZ noted that GFONSI stood for "General Fund and Other Non-Segregated Investments (GFONSI)."

1:05:32 PM

REPRESENTATIVE WOOL asked Mr. Andreassen to repeat his previous statement regarding the taxing of GDP.

MR. ANREASSEN clarified that GDP typically utilized international data and nation-to-nation comparisons. He reported that those [states] with a tax-to-GDP ratio greater than 12.5 percent had greater economic growth than those with less than 12.5 percent due to their ability to fund things, like education, health, safety, and welfare.

REPRESENTATIVE WOOL pointed out that some people prioritize the PFD while others prioritize the capital budget, whereas AML seems to prioritize the operating budget. He asked Mr. Andreassen to comment on that analysis.

MR. ANREASSEN believed that everyone can have a different opinion on where to cut and invest. He opined that with the current level of state spending, the greatest negative impact would be further reduction of the state budget.

REPRESENTATIVE WOOL shared that he found the GDP data fascinating, adding that Alaska needs to diversify its economy and invest in capital budgets. In response to Ms. Townsend, he contended that the revenue deficit, not a spending cap, should be the state's main priority. He pointed out that the state had cut its operating budget by 25 percent over the past 5 years in addition to the capital budget. Further, the state's oil revenue was at an all-time low.

1:12:00 PM

REPRESENTATIVE JOSEPHSON, referring to slide 9, asked what a community with significant financial problems or a community that has discontinued municipal operations looks like on the ground.

MR. ANREASSEN clarified that the table being referenced is in direct relation to the 2003 decision to cut community revenue sharing entirely. He indicated that the table highlighted the effects of that decision, which resulted in the adoption or increase of a sales tax by many local governments. He expounded that on the ground, communities couldn't afford to pay employees to staff the city offices and were less able to help the state conduct REAA school board elections or help support utilities,

nor were they in the position to support a Village Public Safety Officer (VPSO). He said in some cases, those responsibilities transferred to a Tribe; however, most responsibilities would have fallen back on the state. He reiterated that as communities become stressed, the cost to the state likely increases in the delivery of services to a remote community that would have otherwise been provided by the local government.

[1:15:18 PM](#)

CHAIR SPOHNHOLZ questioned why an income tax is more efficient in regard to the tax to GDP metric.

MR. ANREASSEN emphasized that a statewide tax would affect each community differently. He believed that an income tax would most effectively hit all the different sectors of Alaska's economy and would not be exclusionary because it's outside the bounds of local government taxation; consequently, it would make sense that the state would prioritize the tax that is exclusive to it, he said.

CHAIR SPOHNHOLZ asked what prohibits local governments from having an income tax.

MR. ANREASSEN answered state statute. He offered to follow up with the specific statute citation.

[1:19:24 PM](#)

CHAIR SPOHNHOLZ concluded by noting that the committee had worked hard to present a diversity of opinions on how to fix the state's fiscal situation, as well as the challenges of not fixing it. She remarked on the upcoming schedule.

[1:20:38 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 1:20 p.m.